



Fact Sheet

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Advance Child Tax Credit Payments

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About 25 million taxpayers may be eligible for an advance payment of an increase to the Child Tax Credit. The Jobs and Growth Tax Relief Reconciliation Act of 2003 raised the Child Tax Credit to a maximum of \$1,000 per child from \$600 per child, beginning in 2003. The Act also provided for immediate tax relief by directing the Treasury to send this increase to taxpayers this year. Eligible taxpayers could receive up to \$400 for each child claimed on their 2002 returns as an advance payment of their 2003 Child Tax Credit.

The IRS and Treasury will automatically notify and mail advance payments to eligible taxpayers. Here are the basics:

- Taxpayers have no need to call, no need to apply, no need to fill out another tax form.
- The government will automatically mail checks to eligible taxpayers, beginning July 25.
- Taxpayers who receive the advance payment should keep the IRS notice for their records. This amount will affect the computation of the Child Tax Credit on their 2003 returns.

Child Tax Credit Increase Accelerated

The Child Tax Credit was created by the Taxpayer Relief Act of 1997. It began in 1998 as a maximum credit of \$400 per qualifying child. The new law accelerates a previously scheduled increase of the maximum credit to \$1,000 per child, effective for 2003 and 2004.

The Child Tax Credit is a nonrefundable credit for each qualifying child. To qualify, a child must be under age 17, be a citizen or resident of the United States, be claimed as the taxpayer's dependent, and be the taxpayer's (a) child, stepchild, adopted child, or grandchild; (b) sibling, stepsibling, or a descendant of any of them, whom the taxpayer cared for as his or her own child, or (c) eligible foster child.

There is also an Additional Child Tax Credit, for individuals who get less than the full amount of the Child Tax Credit because their tax is too low. The Additional Child Tax

Credit – figured on Form 8812 – may result in a refund even if the person does not owe any tax.

The Child Tax Credit is not the same as the Credit for Child and Dependent Care Expenses. On the 2002 forms, the Child Tax Credit is on line 50 of Form 1040 and line 33 of Form 1040A. The Additional Child Tax Credit is on line 66 of Form 1040 and line 42 of Form 1040A.

No Action Required

Taxpayers do not need to do anything to receive the advance payment. The IRS automatically will send notices to eligible taxpayers. The IRS notice will be followed a few days later by the advance payment check. Both the notice and the check will be mailed to the address listed on the taxpayer's 2002 tax return. Anyone who has moved since filing the 2002 return should notify the U.S. Postal Service of the new address, so that the notice and check may be forwarded.

The Treasury will mail advance payment checks on July 25, Aug. 1 and Aug. 8 to taxpayers who filed their returns by April 15. The checks will be issued based on the last two digits of the Social Security number listed first on the 2002 tax return. Taxpayers whose last two digits are the lowest will receive their checks first.

Taxpayers who have received filing extensions will still get the advance payment checks if they are eligible. They should have their advance payment checks about four to six weeks after the IRS receives their 2002 tax return.

Advance Payment Guidelines

The IRS will use 2002 tax year data to determine who will receive the automatic advance payment. Generally:

- Taxpayers must have claimed the Child Tax Credit on the 2002 tax return.
- Taxpayers must have used Form 1040 or Form 1040A, or filed electronically.
- The child must have been born after 1986.

Examples of Taxpayers Who Qualify

(1) M/M Brown have two children, ages 8 & 10; their 2002 AGI was \$50,000 and they claimed a Child Tax Credit of \$1,200. The Browns will receive an advance payment of \$800.

(2) M/M Green have two children, ages 11 & 13; their 2002 AGI was \$125,500 and they claimed a Child Tax Credit of \$400 because of the phaseout provision. The Greens will receive an advance payment of \$800.

(3) Ms. Gray has one child, age 7; her 2002 earned income was \$16,560; she claimed a Child Tax Credit of \$368 and an Additional Child Tax Credit of \$232. Ms. Gray will receive an advance payment of \$389.

(4) M/M White have three children, ages 12, 14 & 16 in 2002; their 2002 AGI was \$65,000 and they claimed a Child Tax Credit of \$1,800. The Whites will receive an advance payment of \$800, based on their two younger children, since their oldest child turns 17 in 2003.

Not All Are Eligible

Some taxpayers with children are not eligible for the advance payment, including:

- Taxpayers who filed Form 1040EZ, which doesn't provide for claiming dependents or the Child Tax Credit.
- Taxpayers who had income that exceeded certain limits.
- Taxpayers whose only children were born before 1987.
- Taxpayers whose only child was born in 2003.
- Taxpayers whose Child Tax Credit and Additional Child Tax Credit for 2002 totaled less than \$600 for each qualifying child because of the tax liability and earned income limitations.

The Child Tax Credit begins to phase out for taxpayers with modified adjusted gross income above:

- \$110,000, if married filing jointly
- \$55,000, if married filing separately, or
- \$75,000, for all others.

For every \$1,000 or portion thereof above these thresholds, the total credit amount is reduced by \$50. Thus, in 2002 a taxpayer with two children (who would otherwise have a \$1,200 credit) had the Child Tax Credit completely phase out if his/her AGI was more than \$23,000 above the threshold. The higher per child credit amount for 2003 will mean that a taxpayer with two children will not have the \$2,000 credit amount completely phase out unless his/her AGI is more than \$39,000 above the threshold.

A taxpayer who was not eligible for the Child Tax Credit for 2002 will not receive an advance payment check, even though the higher phaseout limit may allow this taxpayer to claim the credit when filing the 2003 tax return.

Tax Year 2002 Data Used

The IRS uses 2002 tax data to figure the advance payment. Some people's tax situations will change during the year. For example, if a child was born in 2003, the taxpayer would not have claimed that child on the 2002 return and would not be eligible for an advance payment based on that child, but may claim a Child Tax Credit of up to \$1,000 for that qualifying child on the 2003 tax return.

Taxpayers receiving an advance payment should keep the IRS notice of the advance payment amount in order to properly complete the 2003 tax return. They will subtract any advance payment already received from the total amount (up to \$1,000 per child) when figuring the credit for the 2003 return.

Some taxpayers may have changed residency after filing the 2002 return. If an advance payment check cannot be forwarded to the taxpayer, it will be returned to the IRS. Taxpayers who qualify for the advance payment, but who do not receive a check, may claim the full Child Tax Credit amount of up to \$1,000 per qualifying child on their 2003 tax returns.

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